GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2558
ANSWERED ON:17.03.2017
Policy on Stressed Assets
Sathyabama Smt. V.

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India asked banks to put in place clear policies for sale of stressed assets to securitisation and reconstruction firms and secure two external valuation reports in case the exposure tops Rs.50 crore and if so, the details thereof;
(b) whether the banks identify and list internally the specific financial assets identified for sale to other institutions, including Securitisation Companies/Reconstruction Companies and if so, the details thereof; and
(c) whether the Government has formed the insolvency and bankruptcy board and other relevant institutional mechanism to expedite the process of recovery of loans and if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(a) In terms of circular dated September 01, 2016 on "Guidelines on Sale of Stressed Assets by Banks", the Reserve Bank has put in place an improved framework governing sale of stressed assets by banks to asset reconstruction companies (ARCs)/other banks/Non-Banking Financial Companies/Financial Institutions etc. The guidelines require that banks should lay down detailed policies and guidelines on sale of their stressed assets to ARCs. Further, the framework also contains guidelines to enhance transparency in the entire process of sale of stressed assets, which include two independent valuation of assets more than Rs.50 crore. Reserve Bank has also disincentivised bank's investment in security receipts backed by NPAs sold by the same bank by increasing the provisioning requirement for such security receipts. Reserve Bank has also put in the concepts of right of first refusal and Swiss challenge method to facilitate debt aggregation by entities which specialise in resolution of stressed assets.
Further, banks should, at least once in a year, with the approval of their Board, indentify and list internally all the specific financial assets identified for sale to other institutions, including Securitisation Companies / Reconstruction Companies.
(c) The Central Government has constituted Insolvency and Bankruptcy Board of India (IBBI) vide Gazette notification No.3110 dated 01.10.2016 under the insolvency and Bankruptcy Code, 2016 (Code). The Insolvency and Bankruptcy code (IBC) has been enacted and Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) and The Recovery of Debts due to Banks and Financial Institutions (RDDBFI) Act have been amended to improve resolution/recovery of bank loans.
The Government has recently issued advisory to banks to take action against guarantors in event of default by borrower since in the event of default; the liability of the guarantor is co-extensive with the borrower.
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